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SENSITIVE
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STATE FOR NEA-I, EEB FOR GALLOGLY
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TAGS: [EPET](#) [EINV](#) [ENRG](#) [PREL](#) [IZ](#)
SUBJECT: NATURAL GAS FROM IRAQ

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SUMMARY

1. (SBU) Iraq has world class reserves of natural gas, although most of it is associated with oil deposits and will become available only with oil development over the coming decade. In the medium term, however, Iraq may be able to export 4-10 billion cubic meters per year (BCM/yr) of gas. Depending on results of additional delineation drilling, development of the discovered but undeveloped Akkas field in Western Anbar could provide 4-5 BCM/yr to Turkey via a link-up through Syria to the Arab Gas Pipeline. An additional amount of gas, up to 10 BCM/yr may be available directly to Turkey from apparently non-associated gas (depending on more drilling) in Kurdish regions. Still larger volumes depend on development of gas resources in the southern oil fields, and construction of major new strategic pipelines through the length of the country, a long term prospect depending as well on restoration of enduring security. END SUMMARY.

RESOURCE BASE

2. (U) Iraq contains an estimated 2.7 to 3.1 trillion cubic meters (thousand BCM) of proven natural gas reserves (placing it fifth in the world), along with another 4.2 thousand BCM in probable gas reserves. Almost all proven gas reserves in Iraq are associated with petroleum reserves - 70 percent of the produced gas is solution (associated) gas from oilfields, 20 percent from gas fields (unassociated with oil), and the remainder is from oilfields with gas caps.

3. (U) Iraq's current total gas production is about 15.5 BCM per year (BCM/y). Iraq's long-term goal is to increase oil production from 2.1 to 6.5 million barrels of oil per day (mbd) over the next 10 years. If it realizes that oil production target, gas production should increase proportionally by about 53 BCM/y, to an annual production rate of 69 BCM/y in 2017.

MINISTRY OF OIL GOALS

4. (U) At a conference in Dubai in September 2007, Iraq's Minister of Oil Husayn Shahrastani optimistically said Iraq's medium term goals are to increase oil production from 2.5 mbd in 2007, to 3 mbd in 2008, and to 3.5 mbd in 2009. (COMMENT: Actual production in 2007 is likely to average only about 2 mbd, although it is increasing moderately with the reopening of the northern export route. END COMMENT). Such an oil production increase would imply an increase in associated gas production of about 29 BCM/y. The

Minister said Iraq's short term goal is to use more of its gas, and medium term, to increase the amount of proven gas reserves.

¶5. (SBU) Unlike most countries, there is little doubt that Iraq has the oil reserves to meet its oil production targets; however, capturing the full economic benefit of gas production faces serious security, political and institutional obstacles. Also, because most of Iraq's estimated proven oil reserves are concentrated in the southern part of the country, and because most of the additional production of gas will come from those southern oil fields, Iraq faces a difficult logistical choice in deciding how to use its gas.

THE CURRENT STATE OF AFFAIRS

¶6. (SBU) Existing gas distribution systems in Iraq suffered from multiple wars and neglect during the sanctions period. Most of the gas pipelines that are left are of extreme age and have suffered serious corrosion. Consequently, many have been de-rated to lower operating pressures, resulting on lower flow rates. Additionally, many have been damaged by the insurgency. Iraq lacks a functioning network of degassing, compression and dehydration facilities. As a result, Iraq has to flare vast amounts of gas.

¶7. (U) In the southern region, some 6-8 BCM/y of associated gas are flared, and only about 3 BCM/y of gas are used from a production of 9.8 BCM/y. To place that in context, that amount of flared gas could be used to generate some 2,400 to 3,200 MW of electricity in a modern gas turbine power plant. The remaining gas that is captured in the south is far distant and not connected to any pipeline network to any existing and functioning export route.

¶8. (U) In the northern region, some 3.9 billion BCM/y of free gas is produced, along with approximately 1.2 billion BCM/y of associated gas. Total production in the North is 5.1 billion BCM/y.

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Most of that is used in power production, and even so, there still is a shortage of gas for power generation.

POSSIBLE MARKETS

¶9. (SBU) Looking beyond the immediate domestic need for utilizing gas production, addressing the flaring of gas should be a high priority for both economic and environmental reasons, and will become even more important as Iraq ramps up petroleum production. The development of the gas industry in Iraq should take into consideration the country's current and future energy needs, as well as the potential to be integrated into regional and international gas and petrochemical markets.

¶10. (SBU) Gas exports to Europe represent the best opportunity to capture the market value of Iraqi gas. The Minister of Oil readily understands the geopolitical significance as well: he agrees that if Iraqi gas made a substantial contribution to Europe's energy diversification, it would encourage European interest in Iraqi political stability. And for us, of course, Iraqi gas can help fill-in supplies for a non-Gazprom Southern Corridor. If established, this market would offer Iraq a stable market demand.

¶11. (SBU) So, in the short term, what gas export projects are possible? Since 2003, we have been working with Iraq to help it with the capacity-building needed for extending its domestic gas network, and integrating the northern and southern gas systems which have been effectively broken apart by the insurgency. Unfortunately, given the insurgency and attendant instability, we have little to show for our efforts: some gas-fired generation, some repaired pipeline links. But even today the north and south pipeline systems are not linked and some power plants designed for gas are running on diesel, or, even worse from an operational and environmental standpoint, on heavy fuel oil. But there are short and medium term export options nevertheless, starting with modest volumes via Syria.

SYRIA

¶12. (SBU) Several studies have been conducted (or are being

conducted) to capitalize on Iraq's gas resources, including by Shell country-wide and by the Japan External Trade Organization in the north and south. The western desert of Iraq is relatively under-explored, and has not seen recent or new exploration drilling except in the area of Akkas field. Only six gas wells, of which only four are productive, have been drilled in the Akkas field, located in Anbar province conveniently near Syria but inconveniently without a suitable gas pipeline nearby. Although a commercial-scale gas reserve has been proven at Akkas field, for lack of a pipeline the gas is stranded at the moment, and the wells were capped.

¶13. (SBU) The Iraqi Oil Minister announced on September 9 that the Ministry will construct a pipeline to supply gas to Syria. He told EMIN on September 14 that Iraq is going to build a short pipeline from Akkas across to a gas/oil separation plant (GOSP) in Syria, which would supply 0.5 bcm per year of gas, initially for injection for enhanced recovery for Syrian oil wells in the region. According to the Minister of Oil, however, Iraq would be open to develop greater volumes from Akkas, up to 5 BCM. (NOTE: The field has not been proven to that capacity yet. END NOTE).

¶14. (SBU) This additional gas could be available for export to Turkey and then to Europe via the Arab Gas Pipeline (which we understand is still in its third phase of construction through Syria, and not yet connected to European markets via Turkey). Full field development of this nature could take three years or less if it is turned over to an IOC on a service contract basis to develop, as the Minister says he would like to do. However, without the national hydrocarbon framework law, such a contract would require Parliamentary approval.

TURKEY

¶14. (SBU) A medium-term export possibility is to construct a gas pipeline directly from the northeastern gas fields to (or through) Turkey. Iraq had been a minor regional gas exporter prior to the first Gulf War. The implementation of sanctions put an end to the export of gas for a decade. The previous regime in Iraq laid the groundwork for resuming exports of natural gas to Turkey, once UN sanctions were lifted. In 1996, Iraq and Turkey signed a provisional agreement to supply up to 10 bcm/yr of Iraqi gas. The project planned to utilize gas from five gas-rich deposits in northeast Iraq (Khor Mar, Chemchemal, Jaria Pika, Khashm al Ahmar and Mansuriyah) that were not -- and still are not -- in production. However, to develop this gas would require the construction of gas treatment

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facilities and a pipeline to the Turkish grid. The initial estimated cost of the development in 1996 was more than US\$2.5 billion.

¶15. (SBU) Turkey has never forgotten the potential of Iraqi gas. According to press reports, the general manager of BOTAS (Turkey's national gas company), Saltuk Duzyol, said on September 4 that BOTAS hopes to develop gas fields in northern Iraq to strengthen supplies for the Nabucco pipeline project, as soon as the new petroleum law is enacted in Iraq.

¶16. (SBU) There is one large caveat to keep in mind about gas in the northeastern fields. The fields are classed as gas fields by the Ministry of Oil and generally assumed to contain dry gas, but some data suggests otherwise, and it is possible that the first exploratory wells have only encountered the gas cap of an oil accumulation. The production of free gas from an oil reservoir usually degrades the reservoir pressure and decreases the ultimate oil recovery. Without additional exploratory evidence, this would not be a recommended practice.

THE POLICY CHOICES WE MAKE TODAY...

¶17. (SBU) The choice between these pipeline export routes raises political and technical issues. With respect to Syria, export by Iraq of the small quantities (500 mcm) being discussed would give Iraq a considerable lever on Syrian behavior, as this gas would help Syria maintain its oil production levels. Even the modestly larger volumes (4.5 bcm) that could be supplied to Turkey across Syria

could give Baghdad leverage over Damascus, although in that case the leverage could cut both ways.

¶18. (SBU) On direct exports from the northern fields to Turkey, such deals could improve Kurdish-Turkish relations, but Baghdad's buy-in will be needed also.

¶19. (SBU) On the technical side, both of these options only scratch the surface, so to speak, of total reserves with the northern gas resources, and Iraq should continue work to repair its internal pipeline infrastructure to tap into the potential of its southern fields, a long-term project. But as these fields and pipelines are developed, exportable surpluses of 50-60 BCM of Iraqi gas are quite realistic, making Iraq a potential major world supplier of gas, and creating competition for Russia and Iran.

¶20. (SBU) Iraq is developing a master gas plan, which should take into consideration commercial, technical, organizational and legal parameters (including energy regulation and gas policy). The obvious obstacles to the path forward are the current instability, the need for extensive mine and ordinance removal in critical southern fields, and the ability of Iraq to regain the management and technical expertise lost due to personnel departure. Our long term goal should be a functioning domestic distribution system that satisfies domestic fuel needs, an increase in oil exports, and exports of significant quantities of natural gas through Iraq's neighbors to customers in Europe and perhaps Asia.